

CARSON CITY AUDIT COMMITTEE

Minutes of the April 8, 2008 Meeting

Page 1

DRAFT

A regular meeting of the Carson City Audit Committee was scheduled for 3:00 p.m. on Tuesday, April 8, 2008 in the City Hall Capitol Conference Room, 201 North Carson Street, Carson City, Nevada.

PRESENT: Chairperson Richard Staub
Vice Chairperson Ken Brown
Joe Eiben
Pete Livermore
Nick Providenti

STAFF: Sue Johnson, Internal Auditor
Melanie Bruketta, Chief Deputy District Attorney
Kathleen King, Recording Secretary

NOTE: A recording of these proceedings, the committee's agenda materials, and any written comments or documentation provided to the recording secretary during the meeting are public record, on file in the Clerk-Recorder's Office. These materials are available for review during regular business hours.

1. CALL TO ORDER AND DETERMINATION OF QUORUM (1-0007) - Chairperson Staub called the meeting to order at 3:04 p.m. Roll was called; a quorum was present.

2. ACTION ON APPROVAL OF MINUTES - March 11, 2008 (1-0014) - Member Livermore moved to approve the minutes. Vice Chairperson Brown seconded the motion. Motion carried 5-0.

3. DISCUSSION AND POSSIBLE ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS ADOPTION OF THE PROPOSED AUDIT MANUAL, AND CLEAR DEFINITION OF THE RESOURCES REQUIRED TO CARRY OUT THE FUNCTIONS AND RESPONSIBILITIES OF THE CITY AUDITOR (1-0021) - Chairperson Staub introduced and provided background information on this item. He provided an overview of the proposed manual, developed by Ms. Johnson, and advised it would be provided to each auditee. He provided an overview of the purpose of the language of this agenda item. Vice Chairperson Brown expressed the opinion that a full-time auditor is needed in order to accomplish the audit work plan. Member Livermore discussed the benefits of a full-time auditor. Member Eiben agreed, and discussed the importance of evaluating efficiencies in order to save the City money. Member Providenti agreed, and suggested that the full-time auditor position "should pay for itself five or six fold" in efficiencies and effectiveness. He discussed the City's financial status, and reiterated the opinion that the full-time auditor position is an important function.

Ms. Johnson provided background information on the purpose for developing the proposed audit manual. She discussed the importance of the audit manual being adopted and serving as a template for all audits conducted. In response to a question, she requested input of the committee members with regard to the structure and effectiveness of the proposed manual. Member Livermore advised of having reviewed the proposed manual. With regard to letters proposed to be submitted to each auditee, he inquired as to time lines associated with each audit. Ms. Johnson referred to the audit work plan and pointed out the estimated hours associated with each audit. She will also request a time line, and acknowledged she would work with each auditee to ensure appropriate timeliness. Member Eiben complimented Ms. Johnson on the proposed manual. He advised of having been through the audit process, and that the manual would have been helpful. He suggested revisions.

CARSON CITY AUDIT COMMITTEE

Minutes of the April 8, 2008 Meeting

Page 2

DRAFT

Member Livermore inquired as to the possibility of charging departments for the audit function. Member Providenti described the City's cost allocation plan developed each December. He suggested that the internal auditor's time could be included in the cost allocation plan, and discussion followed. Member Eiben expressed support for the idea, but cautioned against using the term "cross charging." Chairperson Staub entertained a motion to adopt the proposed audit manual. **Member Eiben moved to adopt the manual, as written. Member Providenti seconded the motion.** In response to a comment, **Member Eiben amended his motion to indicate the audit committee's support of a full-time auditor. Member Providenti continued his second.** Motion carried 5-0.

In response to a question, Chairperson Staub advised that the Board of Supervisors approves each fiscal year's audit plan. He recommended agendizing the audit manual as a Board of Supervisors consent agenda item. Member Providenti suggested that final audit reports would be more important to the Board of Supervisors. Member Livermore suggested dating each page of the audit manual in light of future revisions. Chairperson Staub acknowledged that the audit manual is a public document. Consensus of the committee was to agendize Board of Supervisors review of the audit manual as a consent agenda item.

4. DISCUSSION AND POSSIBLE ACTION REGARDING POSSIBLE MODIFICATIONS TO THE INTERNAL AUDIT DEPARTMENT BUDGET FOR FISCAL YEAR 2008 / 2009 AND RESULTING IMPACTS TO SERVICES PROVIDED, INCLUDING THE SIX-MONTH PERFORMANCE EVALUATION OF THE CITY AUDITOR, EFFECTIVE ON OR ABOUT MARCH 20, 2008 (1-0328) - Ms. Johnson introduced and provided background information on this item. Chairperson Staub provided additional background information. He advised that Supervisor Aldean had requested to defer the evaluation until Ms. Johnson could produce additional work product. He further advised of having requested Supervisor Aldean to allow him and Member Livermore to conduct the evaluation and provide the results to the Board of Supervisors and this committee. In response to a question, Chairperson Staub advised that the original evaluation target date had passed. In response to a further question, he advised that the evaluation would be done annually going forward. Ms. Johnson advised of an agreement that the annual evaluation would be conducted each September. Chairperson Staub recommended moving the evaluation to January, as a matter of convenience. He acknowledged that the annual audit work plan would include the internal auditor's evaluation. Ms. Johnson acknowledged agreement with the proposal.

Chairperson Staub entertained a motion to indicate no proposed changes in the internal audit budget for FY 08/09. In response to a question, Mr. Providenti advised that Finance Department staff is being very conservative on sales tax revenue projections. He further advised of no plans to reallocate money from the stabilization fund "for this year or for next." He acknowledged plans to fund merit increases "depending upon what CCEA negotiates." **Member Livermore moved to recommend to the Board of Supervisors no proposed changes to the internal audit budget for FY 08/09; and that Chairperson Staub and Member Livermore will conduct a six-month performance evaluation, upon adoption of the audit work plan. Vice Chairperson Brown seconded the motion.** Chairperson Staub acknowledged that the full committee would not be conducting the performance evaluation. He called for a vote on the pending motion; motion carried 5-0.

CARSON CITY AUDIT COMMITTEE

Minutes of the April 8, 2008 Meeting

Page 3

DRAFT

5. DISCUSSION AND ACTION TO RECOMMEND TO THE BOARD OF SUPERVISORS A PRIORITIZATION OF PROPOSED AUDITS TO FINALIZE THE CITY AUDITOR'S WORK PLAN FOR THE PERIOD APRIL 2008 THROUGH JUNE 2009 (1-0469) - Ms. Johnson provided background information on this item, distributed to the committee members the revised proposed audit work plan, and provided an overview of the same. She provided an overview of and responded to questions regarding the estimated hours / time line outlined in the proposed work plan. She distributed to the committee members and staff, and reviewed, a table entitled "Allocated Time Re-Cap as a Percentage." In response to a question, Ms. Johnson explained the method by which she had formulated the percentages reflected on the table. She expressed the opinion that "at least 50 percent" of her time should be spent directly on the audit function. She will review the percentage allocations on a monthly basis and report back to the committee "how are we tracking to the standard we set." She suggested utilizing the Allocated Time Percentage as a standard. Chairperson Staub agreed that 50 percent of the auditor's time should be spent directly on audits. In response to a question, Ms. Johnson explained the difference between time spent on special projects and time spent on the audit plan. Consensus of the committee was to approve the allocated time re-cap.

Ms. Johnson reviewed the revisions to the proposed work plan from the last meeting. With regard to the financial policy review, Member Providenti suggested waiting until after Kafoury, Armstrong & Co. conducts their extensive internal control analysis and submits their recommendations. Ms. Johnson agreed with deferring the financial policy review until the conclusion of Kafoury, Armstrong's external audit in December of 2008 "in terms of maximizing function." Following discussion, Ms. Johnson advised that City staff will meet with Kafoury, Armstrong representatives at the end of May to discuss details of their audit. Chairperson Staub suggested designating the financial policy review and parks and recreation programs audits as special projects, and the committee members concurred.

Ms. Johnson reviewed the Proposed Quarterly Reviews section of the audit work plan. She noted the importance of the proposed quarterly audits because of the prior PERS audit of the City's processes and because of policy changes subsequently proposed by PERS. The proposed quarterly audit will validate that training has taken place and that call back / overtime compensation is being paid according to PERS policies and procedures. Ms. Johnson acknowledged the intent to sample various City departments each quarter. She advised of the intent to begin the quarterly audit in the second quarter of the fiscal year, sometime between the first of October and January. Following discussion, consensus of the committee was to designate the PERS Timesheet Compliance as a standard quarterly audit in the work plan. Ms. Johnson assigned an estimated 160 hours to this quarterly review.

Ms. Johnson reviewed the proposed quarterly review of healthcare providers billing compliance. Following discussion, consensus of the committee was to designate the proposed healthcare providers billing compliance as an ongoing quarterly audit. Ms. Johnson assigned an estimated 160 hours to this quarterly review. Chairperson Staub expressed concern regarding ongoing review of the healthcare providers billing. Ms. Johnson advised that the benefits manager reviews healthcare billing on a monthly basis and creates the exception report. She acknowledged that the exceptions can sometimes slip through the cracks, and that the committee will be monitoring compliance. Chairperson Staub explained the mechanism of assigning CPT and ID9 procedure codes. He suggested that the benefits coordinator should be knowledgeable and that St. Mary's Health Plans representatives should be monitoring to ensure payment in accordance with appropriate code identifications. Ms. Johnson suggested designating one of the quarterly reviews to look into Chairperson Staub's concerns. Chairperson Staub suggested having the

CARSON CITY AUDIT COMMITTEE

Minutes of the April 8, 2008 Meeting

Page 4

DRAFT

benefits coordinator enhance his / her review. Ms. Johnson suggested modifying the primary objective of the proposed quarterly review to include an understanding of billing codes and review by the benefits coordinator. Once this is determined, the committee can decide whether or not an audit should be conducted. The committee members concurred. Chairperson Staub advised that many insurance companies outsource these audit, and suggested that Ms. Johnson and the benefits coordinator consider the need for assurance from St. Mary's Health Plans that "somebody is looking at that process."

Ms. Johnson provided background information on the proposed quarterly review of P-card compliance. She recommended including this review with the financial policy review and the committee members concurred. Discussion followed, and Chairperson Staub expressed concern over establishing a policy regarding issuance of P-cards. Ms. Johnson acknowledged that the matter will be addressed at the time City staff meets with the external auditors.

Ms. Johnson referred to the work in progress portion of the audit plan, and provided an update on the PERS audit compliance process. She advised that the reimbursement check, in the amount of \$79,000, was received from PERS last week. She further advised of having talked with the payroll coordinator, and that the process is still on target for evaluating Public Works and Health and Human Services Departments time sheets for the rest of April. Once this is complete, she will report back to the committee the implications to the City. She advised that \$92,000 was paid out for holiday pay; \$79,000 was reimbursed for the fire fighters' call back issue. The payout to the fire fighters is a little over \$78,000. Implications to the City, to date, are \$92,000. Ms. Johnson anticipates this will be somewhat mitigated by the Public Works and Health and Human Services Departments time sheet evaluation. Chairperson Staub advised that this project has been part of Ms. Johnson's work plan since she was hired.

With regard to the travel and training draft policy, Ms. Johnson recommended revision to include certain elements in terms of authorization and review. She provided background information on the project, and expressed the opinion that City management should draft the policy. She acknowledged the current work load of the Finance Department, and requested committee direction with regard to who should be responsible for drafting the policy. Member Livermore suggested strongly recommending that the City's travel and training policy, or a similar policy, be adopted by the elected officials. Chairperson Staub expressed the opinion that elected officials are required to comply with City human resources and finance department policies, including the travel and training policy. He suggested it's a matter of educating the elected officials and including them in the process. He expressed opposition to the internal auditor becoming involved in establishing policies and procedures that a department head, the City Manager, or Human Resources Department staff should be developing. He expressed the opinion that the City Manager and Human Resources Department staff need to develop a draft policy, "work it through the system with the elected officials and department heads," and once there is a process established, have it reviewed by the internal auditor. He emphasized the function of this committee is not to write policies. Member Eiben suggested making such a recommendation, and Member Livermore agreed. Member Providenti agreed that drafting policies is a management function. Discussion followed and, in response to a question, Chairperson Staub expressed the opinion that training is a Human Resources Department function. Ms. Johnson recommended including the City Manager and the Finance and Human Resources Departments in the process. Member Providenti suggested recommending to the City Manager. Following additional discussion, Ms. Johnson advised she would note that the committee had recommended the City Manager revise the travel and training policy with review of the draft by the City Auditor. Member Providenti suggested that all recommendations should be to the City Manager, and the committee members agreed.

CARSON CITY AUDIT COMMITTEE

Minutes of the April 8, 2008 Meeting

Page 5

DRAFT

Ms. Johnson provided background information on the P2K system. She recommended deferring the matter to the City Manager for resolution unless this committee wants to recommend using the internal auditor's experience to assist in the resolution. She noted the staffing challenge, but emphasized the importance of a decision because the system represents a "business critical need." She deferred to Member Providenti, who agreed with her analysis of the situation. He advised that the required updates to conduct year-end processing have not been made. In response to a question, Chairperson Staub provided additional background information on purchase of the P2K system. He recommended working with the software company to leverage training, dispatching appropriate City staff to visit and review a working system, and providing feedback to the Board of Supervisors. He discussed the importance of appropriate due diligence to determine what to do with the \$432,000 P2K system. Ms. Johnson advised of similar conversations with City Manager Larry Werner in terms of the system. She expressed a willingness to stay involved, and suggested that her systems conversion experience could benefit the City in this matter. She suggested assigning a special projects designation, and updating the committee on a monthly basis as to her time. Mr. Providenti expressed support, and advised that the matter needs to be addressed by the end of May or June. He offered to involve some of the Finance Department users. Ms. Johnson offered to contact the software company vice president with whom she's been communicating to get a list of cities in the northern California area which are currently using the same modules as the City. After making phone calls, she will report back to the City Manager, Human Resources Director, and Information Technology Director. She acknowledged she would keep the committee informed. Member Eiben discussed his experience with systems conversion, and discussion took place regarding Ms. Johnson's involvement and the most efficient approach to correcting the existing problem.

Ms. Johnson summarized the committee's direction with regard to the P2K system, as follows: To work with the City Manager to understand the P2K system capabilities, and to determine what the system needs to do for City business purposes. From there, the City Manager would make a Board of Supervisors recommendation as to resources and direction. The committee members acknowledged the accuracy of Ms. Johnson's understanding. Chairperson Staub advised of having met last week with City Manager Larry Werner, who agreed with conducting due diligence to determine the P2K system capabilities. Chairperson Staub pointed out that re-converting to the HTE system won't be any easier or less costly. Ms. Johnson responded to questions of clarification with regard to the direction. Chairperson Staub reiterated that the P2K system was assigned to Ms. Johnson in her original work plan, and noted her expertise in the systems conversion process.

Ms. Johnson summarized the direction regarding the travel and training policy, the PERS audit compliance, and the P2K system. Discussion took place to prioritize the work plan, and Ms. Johnson suggested designating the financial policy review, parks and recreation programs, and grant management as special projects for the external auditors. She reviewed the City Auditor's proposed work plan priorities, as follows: Redevelopment Authority and Office of Economic Development; Compensation Structure Review; Ambulance Billing; and the NDOT - Carson City Freeway, followed by the quarterly reviews discussed earlier in the meeting. In response to a question, Ms. Johnson advised of an item agendized for the April 17th Board of Supervisors meeting to review and approve the proposed work plan. In response to a further question, she advised she would immediately begin the work plan once it's approved by the Board of Supervisors. Chairperson Staub entertained a motion to recommend to the Board of Supervisors the work plan priorities, as identified in this meeting. **Member Eiben so moved. Vice Chairperson Brown seconded the motion. Motion carried 5-0.**

CARSON CITY AUDIT COMMITTEE
Minutes of the April 8, 2008 Meeting
Page 6

DRAFT

(1-2150) In response to a question regarding the travel and training policy, Ms. Bruketta advised that elected officials are required to work within the confines of their City-approved budgets. She further advised of having recommended to the City Manager to share the proposed policy with the elected officials. Discussion followed, and Ms. Johnson discussed research into the possibility of implementing an overall City administrative policy.

6. PUBLIC COMMENT (1-2330) - None.

7. ACTION ON ADJOURNMENT (1-2342) - Member Providenti moved to adjourn the meeting at 4:55 p.m. Vice Chairperson Brown seconded the motion. Motion carried 5-0.

The Minutes of the April 8, 2008 Carson City Audit Committee meeting are so approved this 13th day of May, 2008.

RICHARD STAUB, Chair